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SUBJECT: DOMINICAN PRESIDENT ANNOUNCES LPG SUBSIDY TO
CONTINUE, COUNTER TO AGREEMENT WITH IMF

1. In a dry presentation broadcast over the government's television station late on June 14, Dominican President Leonel Fernandez announced the continuation without change of liquid propane gas (LPG) subsidies of 17.29 Dominican pesos per gallon (about USD 60 cents). Those benefiting are households and public transport providers, mainly taxis and mini buses. The announcement of the decision came as little surprise following several weeks of posturing by all concerned, including cabinet members, comments in early June that the president himself would be making the decision.

2. This was a concession to the loud public demands to continue the subsidy but it was also an inevitable pragmatic choice. Fernandez commented during his short televised address that continued use of LPG by public transport offers environmental benefits, but the reality of the statistics and deliberations he described was that right now there is no feasible way of targeting the subsidy more closely. This is because there is no system in place that will stop the transport operators from getting hold of LPG distributed for household use. The government has been working to set up on a system of debit cards for the poorest households to provide modest subsidies for food, education and cooking gas, the project is not yet complete. Only 75,000 cards have been issued of the planned 200,000.

3. In accordance with the IMF agreement the government had eliminated the subsidy for industrial users in November of 2004. The agreement was to refocus the LPG subsidy on only the poorest families, eliminating it altogether for other households and for the transportation sector. In his relation of "discussions" of the topic, Fernandez said that the government had achieved some agreement that households would suffer unduly from a cutoff of the subsidy at this time (he tactfully did not state that the "discussions" had been with the IMF staff). In his speech, Fernandez indicated that among government concerns were that the drivers using LPG are not passing along the benefit in the form of lower fares. Earlier comments by administration officials had stressed that the transport sector was absorbing 40 percent of the total LPG subsidy. LPG-fueled vehicles charge the same fares as those fueled by gasoline. A data chart presented during Fernandez's address showed the calculation that the subsidy RD Pesos 19,300 per driver per year, or about USD 670, based on 40,000 drivers using LPG in their vehicles.

4. Fernandez stated that to prevent cross-use by vehicles of LPG destined for households, expensive investment in infrastructure would be required, as well as the contracting of inspectors. He indicated that the government has not reached a point where this can be implemented.

5. In addition to the technical problems of limiting subsidized-gas distribution to the poorest families, an additional condition came to light. Fernandez said that recent studies by a university institute and by UNDP indicated that of 182,000 families identified as living in conditions of extreme poverty, a large number do not use LPG at all but rather burn wood or coal for household fuel. In short, the households receiving the subsidy include the middle class -- a reality that Fernandez explicitly acknowledged.

6. IMF Resident Representative Ousmene Mandeng (please protect) commented before Fernandez's Tuesday announcement that he was expecting continuation for some period of time of the current level of LPG subsidies. He added that the Dominican Republic's better than expected macroeconomic performance this year made the disregard for standby commitments on cutting subsidies less damaging than it otherwise might have been.

7. While the Dominicans are probably off the hook with the IMF for now, the writing was on the wall during Tuesday's announcement that the days of the LPG subsidy are numbered. Fernandez indicated that the government still plans the

gradual elimination of the LPG subsidy for all but the poorest households. He underlined this by saying that it does not make sense for the government to continue subsidizing the transport sector or any but the poorest households in the long term.

18. Drafted by Stephen Wheeler
Hertell